Chapter 1
Organizational Behaviour and Management



Part 1

An Introduction





Chapter 1

Organizational Behaviour and Management

Learning Objectives

After reading Chapter 1, you should be able to:

1. Define *organizations* and describe their basic characteristics.
2. Explain the concept of *organizational behaviour* and describe the goals of the field.
3. Define *management* and describe what managers do to accomplish goals.
4. Contrast the *classical viewpoint* of management with that which the *human relations movement* advocated.
5. Describe the *contemporary contingency approach* to management.
6. Explain what managers do—their roles, activities, agendas for action, and thought processes.
7. Describe the societal and global trends that are shaping contemporary management concerns.

BC Biomedical Laboratories Ltd.

Have you ever wondered what it would be like to work at the best company to work for in Canada? For starters, you would be working for BC Biomedical Laboratories Ltd. in British Columbia, which was ranked as the best company to work for in Canada by the Globe and Mail's *Report on Business Magazine* in 2003 and 2004. Your job might involve conducting laboratory testing services such as blood work, drug screening, pre-employment screening, occupational health testing, scientific research, or clinical trials at one of the company's 46 patient centres throughout the Lower Mainland.

BC Biomedical is British Columbia's largest community laboratory and an integral part of the British Columbia Health Care system. It is the primary diagnostic lab that doctors in greater Vancouver send their patients to for a wide array of medical tests. The company is owned and operated by 46 pathologists and employs 670 employees who serve more than 1.5 million patients each year. The workforce is diverse and includes a high percentage of women, employees over the age of 50 and close to retirement, as well as employees under 40 who have young families.

What makes BC Biomedical the best company to work for in Canada? There are a number of factors that revolve around the company's employee-centred approach to management, its commitment to keeping employees' happy, and its accommodation of employees' lifestyle needs. According to Jay-Ann Fordy, BC Biomedical's director of human resources, "The company's whole basis is making sure employees are productive and satisfied,



BC Biomedical Laboratories Ltd. was ranked as the best company to work in Canada in 2003 and 2004—the first repeat winner in the annual ranking of the 50 best employers in Canada.

and feeling really great about the things that they do." In addition to providing top pay and benefits, management ensures that employees are empowered and accountable for what they do, and that they feel that they are doing a job that has an impact.

Another important factor that makes BC Biomedical a great place to work is the company's flexible work schedules, which include part-time and full-time positions, flexible work hours, four-day work weeks, and job sharing. Two employees who share a job each receive full benefits and they work out their own schedules and holidays. Also important is the company's profit-sharing plan and a health program that provides employees with a $250 disbursement each year in addition to their regular benefits. Employees can spend the funds on any health-related service.

Another factor is the company's flat organizational structure. There are no more than two people in the hierarchy between the CEO and any employee in the organization, which makes access to and communication with the CEO relatively easy. Employees can and do frequently drop by to talk to the CEO about their work and personal concerns. They can also pick up the phone and call the CEO anytime. In addition to improving the flow of communication, this also results in a consensus-building style of leadership and provides employees with a great deal of autonomy.

A final factor that makes BC Biomedical a great place to work is a lively, fun, and family-oriented culture that includes staff barbecues, family picnics, separate Christmas parties for adults and children, as well as other parties throughout the year, such as the skating party for 500 of its employees, a tobogganing day, and a day at Playland.

What does being the best company to work for in Canada mean for BC Biomedical? It means a high level of employee loyalty and commitment, quality service for the company's customers/patients, and technical quality in tests and analyses. It also means an extremely low employee turnover rate that barely surpasses 2 percent![1]

BC Biomedical Laboratories Ltd.
www.bcbio.com

What we have here is an example of worklife and management—just what this book is about. The example also highlights many important aspects of organizational behaviour such as the use of alternative working schedules, channels of communication, the structure of the organization, employee attitudes and motivation, and the style of leadership. It raises some very interesting questions: Why is the organization structure flat and what effect does this have on employees? Why does the company have a profit-sharing plan and a health program? Why is employee turnover so low and what can other organizations do to lower their turnover? This book will help you uncover the answers to these kinds of questions.

In this chapter, we will define *organizations* and *organizational behaviour* and examine its relationship to management. We will explore historical and contemporary approaches to management and consider what managers do and how they think. The chapter concludes with some issues of concern to contemporary managers.

What Are Organizations?

Organizations. Social inventions for accomplishing common goals through group effort.

This book is about what happens in organizations. **Organizations** are social inventions for accomplishing common goals through group effort. BC Biomedical is obviously an organization, but so are the Montreal Canadiens, the CBC, the Tragically Hip, and a college sorority or fraternity.

Social Inventions

When we say that organizations are social inventions, we mean that their essential characteristic is the coordinated presence of *people*, not necessarily things. BC Biomedical owns a lot of things, such as labs, equipment, and offices. However, you are probably aware that through advanced information technology and contracting out work, some contemporary organizations make and sell products, such as computers or clothes, without owning much of anything. Also, many service organizations, such as consulting firms, have little physical capital. Still, these organizations have people—people who present both opportunities and challenges. *The field of organizational behaviour is about understanding people and managing them to work effectively.*

There are a variety of different organizations in which individuals work together to accomplish goals through group effort. Though the motivation of a television news station might differ from other organizations, all organizations strive for goal accomplishment and survival.

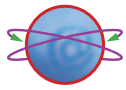


Goal Accomplishment

Individuals are assembled into organizations for a reason. The organizations mentioned above have the very basic goals of providing laboratory services, delivering news, and winning hockey games. Nonprofit organizations have goals such as saving souls, promoting the arts, helping the needy, or educating people. Virtually all organizations have *survival* as a goal. Despite this, consider the list of organizations that have failed to survive: Canadian Airlines, Gimbel's, Child World, and a ton of American savings and loan companies. *The field of organizational behaviour is concerned with how organizations can survive and adapt to change.* Certain behaviours are necessary for survival and adaptation. People have to

- be motivated to join and remain in the organization;
- carry out their basic work reliably, in terms of productivity, quality, and service;
- be willing to continuously learn and upgrade their knowledge and skills; and
- be flexible and innovative.[2]

The field of organizational behaviour is concerned with all these basic activities. Innovation and flexibility, which provide for adaptation to change, are especially important for contemporary organizations. Management guru Tom Peters has gone so far as to advise firms to "Get Innovative or Get Dead."[3]



Tom Peters
www.tompeters.com

Group Effort

The final component of our definition of organizations is that they are based on group effort. At its most general level, this means that organizations depend on interaction and coordination among people to accomplish their goals. Much of the intellectual and physical work done in organizations is quite literally performed by groups, whether they are permanent work teams or short-term project teams. Also, informal grouping occurs in all organizations because friendships develop and individuals form informal alliances to accomplish work. The quality of this informal contact in terms of communication and morale can have a strong impact on goal achievement. For all these reasons, *the field of organizational behaviour is concerned with how to get people to practise effective teamwork.*

Now that we have reviewed the basic characteristics of organizations, let us look more directly at the meaning and scope of organizational behaviour.

What Is Organizational Behaviour?

Organizational behaviour refers to the attitudes and behaviours of individuals and groups in organizations. The discipline of organizational behaviour systematically studies these attitudes and behaviours and provides insight about effectively managing and changing them. It also studies how organizations can be structured more effectively and how events in their external environments affect organizations. Those who study organizational behaviour are interested in attitudes—how satisfied people are with their jobs, how committed they feel to the goals of the organization, or how supportive they are of promoting women or minorities into management positions. Behaviours like cooperation, conflict, innovation, resignation, or ethical lapses are important areas of study in the field of organizational behaviour.

Organizational behaviour. The attitudes and behaviours of individuals and groups in organizations.

Using an organizational behaviour perspective, reconsider the BC Biomedical vignette that opened the chapter. The immediate question is: *What are the factors that make an organization a great place to work and a success?* Although we will not answer this question directly, we can pose some subsidiary questions

highlighting some of the topics that the field of organizational behaviour covers, which we will explore in later chapters.

- How should jobs be designed to increase employee motivation and performance? At BC Biomedical, employees are empowered and accountable for what they do, they have a great deal of autonomy, and they feel that their work has a significant impact on the lives of others. How to design jobs that are motivating and satisfying to employees is discussed in Chapter 6, and the topics of power and empowerment are covered in Chapter 12.
- What are the implications of managing a diverse workforce? BC Biomedical has a diverse workforce that includes a high percentage of women and workers over 50. How should organizations manage a diverse workforce and what effect does this have on employee's attitudes and behaviour? Chapter 3 discusses stereotypes and workforce diversity, and what organizations can do to manage diversity and to realize the benefits of a diverse workforce.
- Why do employees at BC Biomedical have positive attitudes about their work and the company and what are the implications of this for the organization? Organizations are concerned about employees' attitudes because they have implications for important behaviours such as absenteeism and turnover. In Chapter 4 you will learn about the formation of attitudes and about two very important attitudes in organizations: job satisfaction and organizational commitment.
- What is a strong organizational culture and what role does it play in an organization's effectiveness? BC Biomedical has a culture that is employee-centred, fun, lively, and family-oriented. Strong cultures have been shown to have a number of advantages that can influence an organization's financial success. How cultures are built and maintained is covered in Chapter 8.
- How important is compensation for employee motivation and how should employees be compensated? At BC Biomedical, employees receive very good pay and benefits and the company also has a profit sharing plan. The role of money as a motivator and the different ways of linking pay to performance is covered in Chapter 6.
- What style of leadership is most effective? Leadership at BC Biomedical has been described by the CEO as a consensus-building model of leadership. In other words, employees participate and are involved in decision making. Leadership is one of the most important ingredients for an organization's success. As you will learn in Chapter 9, the field of organizational behaviour has a longstanding interest in leadership.
- How should managers communicate to employees? The CEO of BC Biomedical insists on an open-door policy of communication in which any employee can communicate directly with him. Communication is the process of exchanging information, and effective organizational communication is essential for organizational competitiveness. Communication is the focus of Chapter 10.
- What are alternative working schedules and how do they affect employees' attitudes, motivation, and performance? At BC Biomedical, employees can choose part-time or full-time positions, flexible work hours, four-day work weeks, or job sharing. Many organizations today are experimenting with different forms of work arrangements and this topic is covered in Chapter 6.
- How are organizations structured and what kind of structure is most effective? At BC Biomedical, the structure is flat and this enables employees to communicate directly with the CEO. The topic of organizational structure is covered in Chapter 14.

These questions provide a good overview of some issues that those in the field of organizational behaviour study. Accurate answers to these questions would go a long way toward understanding why BC Biomedical is a successful organization and how other organizations can make changes to become more effective. Analysis followed by action is what organizational behaviour is all about.

Why Study Organizational Behaviour?

Why should you attempt to read and understand the material in *Organizational Behaviour*?

Organizational Behaviour Is Interesting

At its core, organizational behaviour is interesting because it is about people and human nature. Why do employees at BC Biomedical care so much about their work and why do so few of them quit? These questions are interesting because they help us understand why employees become committed to an organization and what motivates them to work so hard.

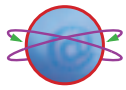
Organizational Behaviour includes interesting examples of success as well as failure. Later in the text, we will study a company that receives thousands of job applications a week (WestJet), a company with strong values for treating people and the environment with respect (Husky Injection Molding Systems), and a company that has implemented equality and diversity programs and is considered a model for how to tie diversity to business success (Bank of Montreal). All of these companies are extremely successful, and organizational behaviour helps explain why.

Organizational behaviour does not have to be exotic to be interesting. Anyone who has negotiated with a recalcitrant bureaucrat or had a really excellent boss has probably wondered what made them behave the way they did. Organizational behaviour provides the tools to find out why.

Organizational Behaviour Is Important

Looking through the lens of other disciplines, it would be possible to frame BC Biomedical's success in terms of economics, finance, or health. Notice, however, that underlying all these perspectives, it is *still* about organizational behaviour. What happens in organizations often has a profound impact on people. It is clear that the impact of organizational behaviour does not stop at the walls of the organization. The consumers of an organization's products and services are also affected, such as the doctor's who rely on BC Biomedical for test results and the patients who receive quality service. Thus, organizational behaviour is important to managers, employees, and consumers; and understanding it can make us more effective managers, employees, or consumers.

We sometimes fail to appreciate that there is tremendous variation in organizational behaviour. For example, skilled salespeople in insurance or real estate make many, many more sales than some of their peers. Similarly, for every Greenpeace or Sierra Club, there are dozens of failed organizations that were dedicated to saving the environment. The field of organizational behaviour is concerned with explaining these differences and using the explanations to improve organizational effectiveness and efficiency.



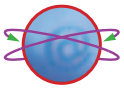
Greenpeace International
www.greenpeace.org

Organizational Behaviour Makes a Difference

By now it is probably apparent to you that organizational behaviour can have a powerful influence on the attitudes and behaviours of individuals in organizations.

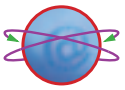
But can it also have an impact on an organization's effectiveness and the bottom line?

Consider the best companies to work for in Canada. Do you think that they are also the most successful companies? In terms of shareholder return and sales growth, the answer is "Yes." Thirty-one of the 50 best companies to work for in Canada in 2003, whose shares trade publicly, outperformed the S&P/TSX Composite Index by 14.4 percent in annual total shareholder return, and by 5 percent in average annual sales growth over a period of five years. The share prices of the best employers of 2004 increased by an average of 10.2 percent a year over the past 10 years compared to 6.2 percent for the S&P/TSX Composite Index. In addition, a recent study in the United States found that the 100 best companies to work for in America have more positive force attitudes and superior financial performance compared to other companies.[4] These results are consistent with the increasing evidence that management practices and organizational behaviour not only influence employee attitudes and behaviour but also have an effect on an organization's effectiveness. In fact, companies like the Royal Bank of Canada are at the forefront of a new wave of management practices that recognizes that satisfied, high-performing employees are good for profits. A major overhaul of this company's human resource and management practices resulted in an improvement in both employee and customer satisfaction. [5]



Jeffrey Pfeffer
www.pfdf.org/leaderbooks/pfeffer

In his book, *Competitive Advantage Through People*, Jeffrey Pfeffer argues that organizations can no longer achieve a competitive advantage through the traditional sources of success, such as technology, regulated markets, access to financial resources, and economies of scale.[6] Today, the main factor that differentiates organizations is the workforce, and the most successful organizations are those that effectively manage their employees. In other words, sustained competitive advantage and organizational effectiveness are increasingly related to management and organizational behaviour. On the basis of a review of the popular and academic literature, Pfeffer identified 16 practices of companies that are effective through their management of people. Many of these practices, such as incentive pay, participation and empowerment, teams, job redesign, and training and skill development, are important topics in organizational behaviour and are discussed in this book. Pfeffer's work helps to point out that organizational behaviour is not just interesting and important but that it also makes a big difference for the effectiveness and competitiveness of organizations.



Fairmont Hotels and Resorts
www.fairmont.com

Consider the case of Fairmont Hotels and Resorts. A decade ago, the company combined a $750-million renovation project on its hotels with an extensive analysis and reorganization of its human resource programs. The company realized that if they did not put as much emphasis on its human capital as it did on refurbishing its properties, then it would not receive a satisfactory return on its investment. Clearly, human capital matters, and the management of it is recognized to be one of the most important factors for an organization's competitiveness and survival.[7]

For a good example of organizational behaviour and a company's success, see "Applied Focus: *Working Hard and Playing Hard at Flight Centre*."

How Much Do You Know about Organizational Behaviour?

Although this is probably your first formal course in organizational behaviour, you already have a number of opinions about the subject. To illustrate this, consider whether the following statements are true or false. Please jot down a one-sentence rationale for your answer. There are no tricks involved!

1. Effective organizational leaders tend to possess identical personality traits.

APPLIED FOCUS

Working Hard and Playing Hard at Flight Centre

Flight Centre is an Australian-based company that is in the business of "selling dreams." The company has 55 stores and 350 employees in Eastern Canada as well as stores in Western Canada, New Zealand, New Guinea, South Africa, the United Kingdom, and the United States. It is the leading travel retailer in Australia and ranks seventh in the world. The discount travel retailer has been profitable every quarter since September 11, 2001, and it is the world's fastest growing travel company. It has been voted the best employer in Australia and New Zealand, and the third best employer in the United Kingdom. In Canada, Flight Centre has been ranked by the Globe and Mail's *Report on Business Magazine* as the best company to work for in Canada in 2002, third best in 2003, and the second best in 2004. It has been ranked as the fourth-best company to work for in British Columbia.

Flight Centre employees tend to be young self-starters from just about every ethnic background. Grahame Hubbard, managing director for Eastern Canada, wants every minority to feel comfortable. The average age of employees is 32, and 75 percent of the staff are female. Most have travelled extensively and can speak several languages. The main job requirement is "passion," not experience in the travel business. Less than 5 percent of Flight Centre employees have such experience.

Flight Centre employees earn more than the $600 per week industry-average, and in 2001 their base pay increased by $5,000. In addition, about half of the company's retail employees own stock in the company and incentives and recognition is so much a part of the culture that employees regularly joke that they belong to a cult. But it's not the money that makes Flight Centre a great place to work. The company has an egalitarian culture in which status differences are downplayed and all employees are treated equally. In fact, every annual report states, "No privileges unless everyone has them." There are no receptionists, no individual offices, and no secretaries. Everyone has to do their own menial tasks and even managers have to take out the trash.

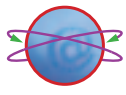
The culture also places a high value on caring and concern. Grahame Hubbard knows something about every employee and believes that "really caring" has to be more than a feel-good slogan. It has to have practical ramifications like the generous benefits package that covers medical, dental and vision care, and the emergency aid program. The company contributes $100 a month to each store's slush fund to cover emergency costs for employees such as the costs for the partner of an employee who had to travel to the United States for cancer treatment. It also paid to fly in the mother of a sick employee and for home care and part of the rent. The company also provides employees with 50 hours of training each year, and career development programs are available to everyone. The company policy is to promote from within, and in a company growing as fast as Flight Centre, employees can advance very quickly. The culture of Flight Centre also places a high value on "fun." In fact, annual reports state that "Fun is an essential part of our company." Monthly parties called "buzz nights" are a regular event at which employees are recognized and rewarded for goals met or surpassed amid much raucous hooting and applause. Thank-you trips are also offered to employees, such as a recent trip that took 55 managers and assistant managers to Chicago for the weekend, at a cost of $46,000.

Flight Centre is a perfect example of how the principles and practices of organizational behaviour can make a company a great place to work and a success. As Grahame Hubbard puts it, "I believe you can provide an atmosphere where people feel they want to grow and do better for themselves."

Sources: Adapted from an article by Hanon, Gerald. (January 2002). Flight Centre. *Report on Business Magazine 18(7),* pp. 44–46, and from Brearton, S. and Daly, J. (January 2003). *The fifty best companies to work for in Canada. Report on Business Magazine 19(2),* p. 61. Reprinted with permission from The Globe and Mail, Gerald Hanon and Steve Brearton.

2. Nearly all workers prefer stimulating, challenging jobs.
3. Managers have a very accurate idea about how much their peers and superiors are paid.
4. Workers have a very accurate idea about how often they are absent from work.
5. Pay is the best way to motivate employees and improve job performance.

Now that you have your answers, do one more thing. Assume that the correct answer is opposite to the one you have given; that is, if your answer is "true" for a statement, assume that it is actually false, and vice versa. Now, give a one-sentence rationale why this opposite answer could also be correct.



Flight Centre
www.flightcentre.com

Each of these statements concerns the behaviour of people in organizations. Furthermore, each statement has important implications for the functioning of organizations. If effective leaders possess identical personality traits, then organizations might sensibly hire leaders who have such traits. Similarly, if most employees prefer stimulating jobs, there are many jobs that could benefit from upgrading. In this book, we will investigate the extent to which statements such as these are true or false and why they are true or false.

The answers to this quiz may be surprising. Substantial research indicates that each of the statements in the quiz is essentially false. Of course, there are exceptions, but in general, researchers have found that the personalities of effective leaders vary a fair amount, many people prefer routine jobs, managers are not well informed about the pay of their peers and superiors, workers underestimate their own absenteeism, and pay is not always the most effective way to motivate workers and improve productivity. However, you should not jump to unwarranted conclusions based on the inaccuracy of these statements until we determine *why* they tend to be incorrect. There are good reasons for an organization to tie pay to job performance in order to motivate employees and to improve their performance. Also, we can predict who might prefer challenging jobs and who will be motivated by pay. We will discuss these issues in more detail in later chapters.

Experience indicates that people are amazingly good at giving sensible reasons as to why the same statement is either true or false. Thus, pay will always motivate workers because most people want to make more money and will work harder to get more pay. Conversely, workers will only work as hard as they have to regardless of how much money they are paid. The ease with which people can generate such contradictory responses suggests that "common sense" develops through unsystematic and incomplete experiences with organizational behaviour.

However, because common sense and opinions about organizational behaviour do affect management practice, practice should be based on informed opinion and systematic study. To learn more about how to study organizational behaviour, see the Appendix. Now, let us consider the goals of organizational behaviour.

Goals of the Field

Like any discipline, the field of organizational behaviour has a number of commonly agreed-on goals. Chief among these are effectively predicting, explaining, and managing behaviour that occurs in organizations. For example, in Chapter 6 we will discuss the factors that predict which pay plans are most effective in motivating employees. Then we will explain the reasons for this effectiveness and describe how managers can implement effective pay plans.

Predicting Organizational Behaviour

Predicting the behaviour of others is an essential requirement for everyday life, both inside and outside of organizations. Our lives are made considerably easier by our ability to anticipate when our friends will get angry, when our professors will respond favourably to a completed assignment, and when salespeople and politicians are telling us the truth about a new product or the state of the nation. In organizations, there is considerable interest in predicting when people will make ethical decisions, create innovative products, or engage in sexual harassment.

The very regularity of behaviour in organizations permits the prediction of its future occurrence. However, untutored predictions of organizational behaviour are not always as accurate. Through systematic study, the field of organizational behaviour provides a scientific foundation that helps improve predictions of organizational events. Of course, being able to predict organizational behaviour does not guarantee that we can explain the reason for the behaviour and develop an effective strategy to manage it. This brings us to the second goal of the field.

Explaining Organizational Behaviour

Another goal of organizational behaviour is explanation of events in organizations—why do they occur? Prediction and explanation are not synonymous. Ancient societies were capable of predicting the regular setting of the sun but were unable to explain where it went or why it went there. In general, accurate prediction precedes explanation. Thus, the very regularity of the sun's disappearance gave some clues about why it was disappearing.

Organizational behaviour is especially interested in determining why people are more or less motivated, satisfied, or prone to resign. Explaining events is more complicated than predicting them. For one thing, a particular behaviour could have multiple causes. People may resign their jobs because they are dissatisfied with their pay, because they are discriminated against, or because they have failed to respond appropriately to an organizational crisis. An organization that finds itself with a "turnover problem" is going to have to find out why this is happening before it can put an effective correction into place. This behaviour could have many different causes, each of which would require a specific solution. Furthermore, explanation is also complicated by the fact that the underlying causes of some event or behaviour can change over time. For example, the reasons people quit may vary greatly depending on the overall economy and whether there is high or low unemployment in the field in question. Throughout the book, we will consider material that should improve your grasp of organizational behaviour. The ability to understand behaviour is a necessary prerequisite for effectively managing it.

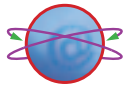
Managing Organizational Behaviour

Management is defined as the art of getting things accomplished in organizations. Managers acquire, allocate, and utilize physical and human resources to accomplish goals.[8] This definition does not include a prescription about how to get things accomplished. As we proceed through the text, you will learn that a variety of management styles might be effective depending on the situation at hand.

Management. The art of getting things accomplished in organizations through others.

If behaviour can be predicted and explained, it can often be controlled or managed. That is, if we truly understand the reasons for high-quality service, ethical behaviour, or anything else, we can often take sensible action to manage it effectively. If prediction and explanation constitute analysis, then management constitutes action. Unfortunately, we see all too many cases in which managers act without analysis, looking for a quick fix to problems. The result is often disaster. The point is not to overanalyze a problem. Rather, it is to approach a problem with a systematic understanding of behavioural science.

Now that we have described predicting, explaining, and managing organizational behaviour, let us apply this knowledge. Read the case about Continental Airlines in the You Be the Manager feature and answer the questions. At the end of the chapter, find out what Continental did in The Manager's Notebook. This is not a test, but rather an exercise to improve critical thinking, analytical skills, and management skills. Pause and reflect on these application features as you encounter them in each chapter.



Continental Airlines
www.continental.com

Early Prescriptions Concerning Management

For many years, experts interested in organizations were concerned with prescribing the "correct" way to manage an organization to achieve its goals. There were two basic phases to this prescription, which experts often call the classical view and the human relations view. A summary of these viewpoints will illustrate how the history of management thought and organizational behaviour developed.

You Be the Manager

Turnaround at Continental Airlines



The airline had little to be respected for. It had gone through 10 presidents in 10 years. It had basement-level job satisfaction.

In 1994, a number of Continental Airlines mechanics ripped the logos off their uniforms so if they ran errands after work, they would not be identified as the airline's employees. Pilots and flight attendants would slink to the back of crew buses on their way to hotels. Top executives fended off complaints and ribbings at holiday parties, family reunions, you name it. "This airline was probably, candidly, one of the least respected airlines in corporate America," says Ned Walker, vice-president of corporate communications. "You could not get any worse than Continental in 1994."

The situation was like being trapped in an endless holding pattern in rocky weather with only bad coffee and stale peanuts—Hell. To try to rectify the dismal state of affairs that was now Continental Airlines, a new management team was brought on board in late 1994. CEO Gordon Bethune became president at Continental in 1994, and by the end of the year, he had become Chairman and CEO and had let go nearly every vice-president in the company.

The new management team put together a multi-dimensional plan called Go Forward that became the new flight itinerary for the airline. Central to the plan was the concept of Working Together, which included employee involvement, incentive plans, and new channels of communication so that employees now read, hear, watch, debate, and question just about everything that goes on in their company.

Among the new channels of communication are company newsletters; bright blue and yellow bulletin boards located in the break room of every office in every city in the world in which Continental has operations; employee meetings hosted by the company CEO and president as well as open-house sessions at headquarters; and toll-free numbers for employee suggestions and comments. Since its inception, employees have offered more than 16,000 suggestions for change.

Employees were paid a flat $65 for each month that Continental ranked in the top five of the Department of Transportation's on-time performance ratings. Employees helped Continental into the top-five rankings nine times—and received an extra $585 each in reward money. Similar performance incentives were introduced throughout the company. Reservation agents receive bonuses on the basis of responsiveness and the number of completed calls. As a result, the proportion of customer-reservation calls answered within 20 seconds jumped from 20 percent to more than 90 percent, the best rate in the industry. As well, in 1995 the company's profit-sharing paid out for the first time in 10 years. In 1996, employees actually doubled their profit-sharing numbers.

What do you think about the changes at Continental?

Questions

1. Explain the role of organizational behaviour in predicting, explaining, and managing the problems at Continental Airlines.
2. What effect do you think these changes had on the attitudes and behaviour of employees and the organization?

To find out the results of Continental's program, see The Manager's Notebook at the end of the chapter.

Source: Excerpted from Flynn, G. (1997, July). A flight plan for success. *Workforce*, 72–78.

The Classical View and Bureaucracy

Most of the major advocates of the classical viewpoint were experienced managers or consultants who took the time to write down their thoughts on organizing. For the most part, this activity occurred in the early 1900s. The classical writers acquired their experience in military settings, mining operations, and factories that

produced everything from cars to candy. Prominent names include Henri Fayol, General Motors executive James D. Mooney, and consultant Lyndall Urwick.[9] Although exceptions existed, the **classical viewpoint** tended to advocate a very high degree of specialization of labour and a very high degree of coordination. Each department was to tend to its own affairs, with centralized decision making from upper management providing coordination. To maintain control, the classical view suggested that managers have fairly few workers, except for lower-level jobs, where machine pacing might substitute for close supervision.

Classical viewpoint. An early prescription on management that advocated high specialization of labour, intensive coordination, and centralized decision making.

Frederick Taylor (1856–1915), the father of **Scientific Management**, was also a contributor to the classical school, although he was mainly concerned with job design and the structure of work on the shop floor.[10] Rather than informal "rules of thumb" for job design, Taylor's Scientific Management advocated the use of careful research to determine the optimum degree of specialization and standardization. Also, he supported the development of written instructions that clearly defined work procedures, and he encouraged supervisors to standardize workers' movements and breaks for maximum efficiency. Taylor even extended Scientific Management to the supervisor's job, advocating "functional foremanship," whereby supervisors would specialize in particular functions. For example, one might become a specialist in training workers, while another might fulfill the role of a disciplinarian.

Scientific Management. Frederick Taylor's system for using research to determine the optimum degree of specialization and standardization of work tasks.

The practising managers and consultants had an academic ally in Max Weber (1864–1920), the distinguished German social theorist. Weber made the term "bureaucracy" famous by advocating it as a means of rationally managing complex organizations. During Weber's lifetime, managers were certainly in need of advice. In this time of industrial growth and development, most management was by intuition, and nepotism and favouritism were rampant. According to Weber, a **bureaucracy** has the following qualities:

Bureaucracy. Max Weber's ideal type of organization that included a strict chain of command, detailed rules, high specialization, centralized power, and selection and promotion based on technical competence.

- A strict chain of command in which each member reports to only a single superior.
- Criteria for selection and promotion based on impersonal technical skills rather than nepotism or favouritism.
- A set of detailed rules, regulations, and procedures ensuring that the job gets done regardless of who the specific worker is.
- The use of strict specialization to match duties with technical competence.
- The centralization of power at the top of the organization.[11]

Weber saw bureaucracy as an "ideal type" or theoretical model that would standardize behaviour in organizations and provide workers with security and a sense of purpose. Jobs would be performed as intended rather than following the whims of the specific role occupant; in exchange for this conformity, workers would have a fair chance of being promoted and rising in the power structure. Rules, regulations, and a clear-cut chain of command that further clarified required behaviour provided the workers with a sense of security.

Even during this period, some observers, such as the "business philosopher" Mary Parker Follett (1868–1933), noted that the classical view of management seemed to take for granted an essential conflict of interest between managers and employees.[12] This sentiment found expression in the human relations movement.

The Human Relations Movement and a Critique of Bureaucracy

The human relations movement generally began with the famous **Hawthorne studies** of the 1920s and 1930s.[13] These studies, conducted at the Hawthorne plant of Western Electric near Chicago, began in the strict tradition of industrial engineering. They were concerned with the impact of fatigue, rest pauses, and lighting

Hawthorne studies. Research conducted at the Hawthorne plant of Western Electric in the 1920s and 1930s that illustrated how psychological and social processes affect productivity and work adjustment.

on productivity. However, during the course of the studies, the researchers (among others, Harvard University's Elton Mayo and Fritz Roethlisberger and Hawthorne's William J. Dickson) began to notice the effects of psychological and social processes on productivity and work adjustment. This impact suggested that there could be dysfunctional aspects to how work was organized. One obvious sign was resistance to management through strong informal group mechanisms like norms that limited productivity to less than what management wanted.

After World War II, a number of theorists and researchers, who were mostly academics, took up the theme begun at Hawthorne. Prominent names included Chris Argyris, Alvin Gouldner, and Rensis Likert. The **human relations movement** called attention to certain dysfunctional aspects of classical management and bureaucracy and advocated more people-oriented styles of management that catered more to the social and psychological needs of employees. This critique of bureaucracy addressed several specific problems:

Human relations movement. A critique of classical management and bureaucracy that advocated management styles that were more participative and oriented toward employee needs.

- Strict specialization is incompatible with human needs for growth and achievement.[14] This can lead to employee alienation from the organization and its clients.
- Strong centralization and reliance on formal authority often fail to take advantage of the creative ideas and knowledge of lower-level members, who are often closer to the customer.[15] As a result, the organization will fail to learn from its mistakes, which threatens innovation and adaptation. Resistance to change will occur as a matter of course.
- Strict, impersonal rules lead members to adopt the minimum acceptable level of performance that the rules specify.[16] If a rule states that employees must process at least eight claims a day, eight claims will become the norm, even though higher performance levels are possible.
- Strong specialization causes employees to lose sight of the overall goals of the organization.[17] Forms, procedures, and required signatures become ends in themselves, divorced from the true needs of customers, clients, and other departments in the organization. This is the "red-tape mentality" that we sometimes observe in bureaucracies.

Obviously, not all bureaucratic organizations have these problems. However, they were common enough that human relations advocates and others began to call for the adoption of more flexible systems of management and the design of more interesting jobs. They also advocated open communication, more employee participation in decision making, and less rigid, more decentralized forms of control.

Contemporary Management—The Contingency Approach

How has the apparent tension between the classical approach and the human relations approach been resolved? First, contemporary scholars and managers recognize the merits of both approaches. The classical advocates pointed out the critical role of control and coordination in getting organizations to achieve their goals. The human relationists pointed out the dangers of certain forms of control and coordination and addressed the need for flexibility and adaptability. Second, as we will study in later chapters, contemporary scholars have learned that management approaches need to be tailored to fit the situation. For example, we would generally manage a payroll department more bureaucratically than a research and development department. Getting out a payroll every week is a routine task with no margin for error. Research requires creativity that is fostered by a more flexible work environment.

Reconsider the nine questions we posed earlier about the factors that make an organization a great place to work and a success. Answering these questions is not an easy task, partly because human nature is so complex. This complexity means that an organizational behaviour text cannot be a "cookbook." In what follows, you will not find formulas to improve job satisfaction or service quality with one cup of leadership style and two cups of group dynamics. We have not discovered a simple set of laws of organizational behaviour that you can memorize and then retrieve when necessary to solve any organizational problem. It is this "quick fix" mentality that produces simplistic and costly management fads and fashions.[18]

There is a growing body of research and management experience to help sort out the complexities of what happens in organizations. However, the general answer to many of the questions we will pose in the following chapters is: "It depends." Which leadership style is most effective? This depends on the characteristics of the leader, those of the people being led, and what the leader is trying to achieve. Will an increase in pay lead to an increase in performance? This depends on who is getting the increase and the exact reason for the increase. These dependencies are called contingencies. The **contingency approach** to management recognizes that there is no one best way to manage; rather, an appropriate style depends on the demands of the situation. Thus, the effectiveness of a leadership style is contingent on the abilities of the followers, and the consequence of a pay increase is partly contingent on the need for money. Contingencies illustrate the complexity of organizational behaviour and show why we should study it systematically. Throughout the text we will discuss organizational behaviour with the contingency approach in mind.

Contingency approach. An approach to management that recognizes that there is no one best way to manage, and that an appropriate management style depends on the demands of the situation.

What Do Managers Do?

Organizational behaviour is not just for managers or aspiring managers. As we noted earlier, a good understanding of the field can be useful for consumers or anyone else who has to interact with organizations or get things done through them. Nevertheless, many readers of this text have an interest in management as a potential career. Managers can have a strong impact on what happens in and to organizations. They both influence and are influenced by organizational behaviour, and the net result can have important consequences for organizational effectiveness.

There is no shortage of texts and popular press books oriented toward what managers *should* do. However, the field of organizational behaviour is also concerned with what really happens in organizations. Let us look at several research studies that explore what managers *do* do. This provides a context for appreciating the usefulness of understanding organizational behaviour.

Managerial Roles

Canadian management theorist Henry Mintzberg conducted an in-depth study of the behaviour of several managers.[19] The study earned him a Ph.D. from the Massachusetts Institute of Technology (MIT) in 1968. In the Appendix, we discuss how he conducted the study and some of its more basic findings. Here, however, we are concerned with Mintzberg's discovery of a rather complex set of roles played by the managers: figurehead, leader, liaison person, monitor, disseminator, spokesperson, entrepreneur, disturbance handler, resource allocator, and negotiator. These roles are summarized in Exhibit 1.1.

Interpersonal Roles. Interpersonal roles are expected behaviours that have to do with establishing and maintaining interpersonal relations. In the *figurehead role*, the manager serves as a symbol of his or her organization rather than an active decision maker. Examples of the figurehead role are making a speech to a trade group,

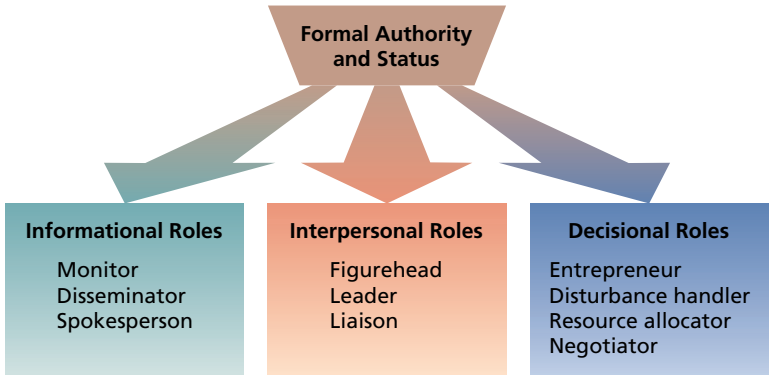


Exhibit 1.1
Mintzberg's managerial roles.

Adapted from Mintzberg, H. (1973). *The nature of managerial work.* New York: Harper & Row.

entertaining clients, or signing legal documents. In the *leadership role*, the manager selects, mentors, rewards, and disciplines employees. In the *liaison role*, the manager maintains horizontal contacts inside or outside the organization. This might include discussing a project with a colleague in another department or touching base with an embassy delegate of a country where one hopes to do future business.

Informational Roles. These roles are concerned with various ways the manager receives and transmits information. In the *monitor role*, the manager scans the internal and external environments of the firm to follow current performance and to keep himself informed of new ideas and trends. For example, the head of Research and Development might attend a professional engineering conference. In the *disseminator role*, managers send information on both facts and preferences to others. For example, the R&D head might summarize what she learned at the conference in an electronic mail message to employees. The *spokesperson role* concerns mainly sending messages into the organization's external environment—for example, drafting an annual report to stockholders or giving an interview to the press.

Decisional Roles. The final set of managerial roles Mintzberg discussed deals with decision making. In the *entrepreneur role*, the manager turns problems and opportunities into plans for improved changes. This might include suggesting a new product or service that will please customers. In the *disturbance handler role*, the manager deals with problems stemming from employee conflicts and addresses threats to resources and turf. In their *resource allocation roles*, managers decide how to deploy time, money, personnel, and other critical resources. Finally, in their *negotiator roles*, managers conduct major negotiations with other organizations or individuals.

Of course, the relative importance of these roles will vary with management level and organizational technology.[20] First-level supervisors do more disturbance handling and less figureheading. Still, Mintzberg's major contribution to organizational behaviour is to highlight the *complexity* of the roles managers are required to play and the variety of skills they must have to be effective, including leadership, communication, and negotiation. His work also illustrates the complex balancing act managers face when they must play different roles for different audiences. A good grasp of organizational behaviour is at the heart of acquiring these skills and performing this balancing act.

Managerial Activities

Fred Luthans, Richard Hodgetts, and Stuart Rosenkrantz studied the behaviour of a large number of managers in a variety of different kinds of organizations.[21] They determined that the managers engage in four basic types of activities:

- *Routine communication.* This includes the formal sending and receiving of information (as in meetings) and handling paperwork.
- *Traditional management.* Planning, decision making, and controlling are the primary types of traditional management.
- *Networking.* Networking consists of interacting with people outside of the organization and informal socializing and politicking with insiders.
- *Human resource management.* This includes motivating and reinforcing, disciplining and punishing, managing conflict, staffing, and training and developing employees.

Exhibit 1.2 summarizes these managerial activities and shows how a sample of 248 managers divided their time and effort, as determined by research observers (discipline and punishment were done in private and were not open to observation). Perhaps the most striking observation about this figure is how all these managerial activities involve dealing with people.

One of Luthans and colleagues' most fascinating findings is how emphasis on these various activities correlated with managerial success. If we define success as moving up the ranks of the organization quickly, networking proved to be critical. The people who were promoted quickly tended to do more networking (politicking, socializing, and making contacts) and less human resource management than the averages in Exhibit 1.2. If we define success in terms of unit effectiveness and employee satisfaction and commitment, the more successful managers were those who devoted more time and effort to human resource management and less to networking than the averages in the exhibit. A good understanding of organizational behaviour should help you manage this tradeoff more effectively, reconciling the realities of organizational politics with the demands of accomplishing things through others.

Managerial Agendas

John Kotter studied the behaviour patterns of a number of successful general managers.[22] Although he found some differences among them, he also found a strong pattern of similarities that he grouped into the categories of agenda setting, networking, and agenda implementation.

Agenda Setting. Kotter's managers, given their positions, all gradually developed agendas of what they wanted to accomplish for the organization. Many began these agendas even before they assumed their positions. These agendas were almost always informal and unwritten, and they were much more concerned with "people

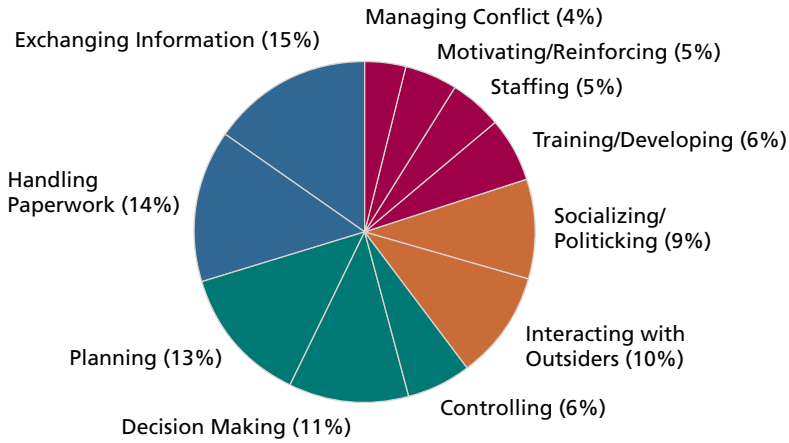


Exhibit 1.2
Summary of managerial activities.

Note: Figures do not total 100% due to rounding. Source: Adapted from Luthans, F., Hodgetts, R.M., & Rosenkrantz, S.A. (1988). *Real managers.* Cambridge, MA: Ballinger.



John Kotter's research of successful business managers showed that exemplary managers practise agenda setting, networking, and agenda implementation. Michael Dell, of Dell Computers, is an example of such a manager.

issues" and less numerical than most formal strategic plans. The managers based their agendas on wide-ranging informal discussions with a wide variety of people.

Networking. Kotter's managers established a wide formal and informal network of key people both inside and outside of their organizations. Insiders included peers, employees, and bosses, but they also extended to these people's employees and bosses. Outsiders included customers, suppliers, competitors, government officials, and the press. This network provided managers with information and established cooperative relationships relevant to their agendas. Formal hiring, firing, and reassigning shaped the network, but so did informal liaisons in which they created dependencies by doing favours for others.

Agenda Implementation. The managers used networks to implement the agendas. They would go *anywhere* in the network for help—up or down, in or out of the organization. In addition, they employed a wide range of influence tactics, from direct orders to subtle language and stories that conveyed their message indirectly.

The theme that runs through Kotter's findings is the high degree of informal interaction and concern with people issues that were necessary for the managers to achieve their agendas. To be sure, the managers used their formal organizational power, but they often found themselves dependent on people over whom they wielded no power. An understanding of organizational behaviour helps to recognize and manage these realities.

Managerial Minds

In contrast to how managers act, which is the focus of the previous section, Herbert Simon and Daniel Isenberg have both explored how managers think.[23] Although they offer a wealth of observations, we will concentrate here on a specific issue that each examined in independent research—managerial intuition.

Some people think that organizational behaviour and its implications for management are just common sense. However, careful observers of successful managers have often noted that intuition seems to guide many of their actions. Isenberg's research suggests that experienced managers use intuition in several ways:

- to sense that a problem exists;
- to perform well-learned mental tasks rapidly (e.g., sizing up a written contract);
- to synthesize isolated pieces of information and data; and
- to doublecheck more formal or mechanical analyses ("Do these projections look correct?").

Does the use of intuition mean that managerial thinking is random, irrational, or undisciplined? Both Simon and Isenberg say no. In fact, both strongly dispute the idea that intuition is the opposite of rationality or that intuitive means unanalytical. Rather, good intuition is problem identification and problem solving based on a long history of systematic education and experience that enables the manager to locate problems within a network of previously acquired information. The theories, research, and management practices that we cover in organizational behaviour will contribute to your own information network and give you better managerial intuition about decisions that involve how to make an organization a great place to work and a financial success.

International Managers

The research we discussed above describes how managers act and think in North America. Would managers in other global locations act and think the same way? Up to a point, the answer is probably yes. After all, we are dealing here with some very basic managerial behaviours and thought processes. However, the style in which managers do what they do and the emphasis given to various activities will vary greatly across cultures because of cross-cultural variations in values that affect both managers' and employees' expectations about interpersonal interaction. Thus, in Chapter 5 we will study cross-cultural differences in motivation, and in Chapter 10 we will explore how communication varies across cultures.

Geert Hofstede has done pioneering work on cross-cultural differences in values that we will study in Chapter 4. Hofstede provides some interesting observations about how these value differences promote contrasts in the general role that managers play across cultures.[24] He asserts that managers are cultural heroes and even a distinct social class in North America, where individualism is treasured. In contrast, Germany tends to worship engineers and have fewer managerial types. In Japan, managers are required to pay obsessive attention to group solidarity rather than to star employees. In the Netherlands, managers are supposed to exhibit mod-



International managers must adapt to cross-cultural differences to successfully interact with potential clients and overseas affiliates.

esty and strive for consensus. In the family-run businesses of Taiwan and Singapore, "professional" management, North American style, is greatly downplayed. The contrasts that Hofstede raises are fascinating because the technical requirements for accomplishing goals are actually the same across cultures. It is only the *behavioural* requirements that differ. Thus, national culture is one of the most important contingency variables in organizational behaviour. The appropriateness of various leadership styles, motivation techniques, and communication methods depends on where one is in the world. To find out more about how management styles differ across cultures, see "Global Focus: *Management European Style*."

GLOBAL FOCUS

Management European Style

Do European managers manage differently from Japanese or North American managers? Roland Calori and Bruno Dufour think so. They conducted extensive interviews with 52 top executives from some of Western Europe's major "blue chip" firms. Their findings indicate that there are common management philosophies and practices which can be described as a European management style.

On the basis of their interviews, they identified a consensus with regard to four common characteristics of management in Europe. First, they found a greater orientation toward people. Compared with their North American or Japanese counterparts, European executives believe they share a common inclination toward the fulfillment of people. In European firms, outsiders are tolerated, and conformity is less accentuated.

A second characteristic of European management is a higher level of internal negotiation. European managers spend a lot of time negotiating inside the firm, between different levels of management, between management and workers, with trade unions, and between headquarters and subsidiaries. As a consequence, they have developed particular skills in negotiation. In North American firms, decision making is usually in the hands of the boss, top-down, and quicker than in Europe, and the values of the companies are the values of the top management team. In Japan, decision making follows a consensual process; the boss has power but uses it in a delicate way. Some ideas come from the shop floor, but when decisions are made at the top, everyone agrees. In Europe, the top management has power, but they have to consult, discuss, negotiate, and convince far more than their North American and Japanese counterparts have to. As a result, it takes more time to get things done in Europe than in North America or in Japan.

A third characteristic is greater skill at managing international diversity. European managers have an ability to recognize diversity. They respect and appreciate international diversity and have developed a particular skill in managing it. European firms accept the risk of intercultural management, they respect the host country, they are less imperialistic than the North Americans and the Japanese, who still have a tendency to export their models. The Japanese have a tendency to reproduce Japanese management and they also try to reproduce their corporate culture. North American companies try to reproduce their corporate culture by authority of the top management and by procedures. The European tendency to adapt to foreign management practices and markets leads to more decentralization of foreign operations.

A final characteristic of European management is that managers are capable of managing between extremes. Management philosophies and practices in North America and Japan are often characterized as two extremes on several dimensions, such as the short-term profit orientation of the North Americans and the long-term growth orientation of the Japanese. The European management style is much more balanced, half-way between the North American and the Japanese models of management. For example, European companies seem to balance individualism and the collective.

These four characteristics of European management are consistent with each other. Managing international diversity and managing between extremes result from the diversity of the European context. The orientation toward people and internal negotiation result from the common history and culture in which economic and social policies, laws, and educational systems are embedded. Such characteristics are valued by top managers, and they seem to fit in the European context, yet they have not proved to be the most successful worldwide.

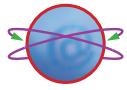
Source: Excerpted from Calori, R., & Dufour, B. (1995). Management European style. *Academy of Management Executive, 9,* 71–73.

Some Contemporary Management Concerns

To conclude the chapter, we will examine briefly four issues with which managers are currently concerned. As with previous sections, our goal is to illustrate how the field of organizational behaviour can help you understand and manage these issues.

Diversity—Local and Global

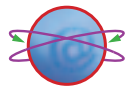
The demographics of the North American population and workforce are changing, and as a result, both the labour force and customers are becoming increasingly culturally diverse. Contributing to this is the increased movement of women into paid employment, as well as immigration patterns. In Canada, visible minorities are the fastest growing segment of the population.[25] The annual report of Employment and Immigration Canada has projected that two-thirds of today's new entrants to the Canadian labour force will be women, visible minorities, aboriginal people, and persons with disabilities.[26] Native-born Caucasian North Americans frequently find themselves working with people whose ethnic backgrounds are very different from their own.



Citizenship and Immigartion Canada
www.cic.gc.ca

Diversity of age is also having an impact in organizations. As a simple example, perhaps you have observed people of various ages working in fast-food restaurants that were at one time staffed solely by young people. Both the re-entry of retired people into the workforce and the trend to remove vertical layers in organizations have contributed to much more intergenerational contact in the workplace than was common in the past. So has the rapid promotion of young technical experts in jobs where knowledge is more critical than long experience.[27]

Diversity is also coming to the fore as many organizations realize that they have not treated certain segments of the population, such as women, homosexuals, and the disabled, fairly in many aspects of employment and that organizations have to be able to get the best from *everyone* in order to be truly competitive. Although legal pressures (such as the Employment Equity Act) have contributed to this awareness, general social pressure, especially from customers and clients, has also done so.



Employment Equity Act
laws.justice.gc.ca/en/E-5.401

Finally, diversity issues are having an increasing impact as organizations "go global." Multinational expansion, strategic alliances, and joint ventures increasingly require employees and managers to come into contact with their counterparts from other cultures. Although many of these people have an interest in North American consumer goods and entertainment, it is naive to assume that business values are rapidly converging on some North American model. As a result, North American organizations that operate in other countries need to understand how the workforce and customers in those countries are diverse and culturally different.

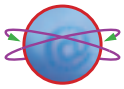
What does diversity have to do with organizational behaviour? The field has long been concerned with stereotypes, conflict, cooperation, and teamwork. These are just some of the factors that managers must manage effectively for organizations to benefit from the considerable opportunities that a diverse workforce affords.

Employee–Organization Relationships

Downsizing, restructuring, re-engineering, and outsourcing have had a profound effect on North American and European organizations in the past two decades. Companies such as General Motors, Levi Strauss, IBM, Air Canada, and Nortel each have laid off thousands of workers. These companies have eliminated high-paying manufacturing jobs, the once-secure middle-management jobs, and high tech jobs. As well, there has been a major structural change in work arrangements. Full-time, full-year permanent jobs are being replaced by part-time work and temporary or contract work. It is expected that these work arrangements will become the future standard forms of work, and they will forever change the nature of employee–organization relationships.[28]

Surveys suggest that the consequences of these events have been decreased trust, morale, commitment and shifting loyalties. Study after study shows an increasing decline in workers' attitudes toward their jobs and organizations, suggesting that employee loyalty is a thing of the past. A survey by Towers Perrin management consultants found that one-third of employees are profoundly unhappy in their work and more than half of the employees sampled in both Canada and the United States have negative feelings about their jobs and are either actively or passively looking for other work. The key reasons for employees' unhappiness included boredom, overwork, concern about their future, and a lack of support and recognition from their bosses. The study also found that trust in senior management is declining and only 20 percent of Canadian workers are engaged in their jobs.[29] In another study, the results indicated that employee morale and job satisfaction levels have fallen since 1995. Employee satisfaction with bonuses, promotion policies, training programs, and co-workers is on the decline.[30]

Absenteeism in Canadian organizations is also on the rise. In 2002, Canadians lost more than 92 million work days due to illness, injury, and personal reasons. Full-time Canadian workers missed an average of nine work days, up from eight days in 2000. Furthermore, this increase was found across all age groups and sectors, and translates into millions of dollars in lost productivity. Although there is no one definitive cause, increasing stress levels and poorly designed jobs are major contributors. In fact, all types of employees are experiencing more workplace stress today than a decade ago, and the incidence of work-related illness is also on the rise.[31] A recent study of Canadian employees estimated that the direct cost of absenteeism due to high work–life conflict—a major stressor in the workplace—is approximately $3–5 billion per year, and when both direct and indirect costs are included in the calculation, work–life conflict costs Canadians approximately $6–10 billion per year.[32] Exhibit 1.3 presents some of the major findings from this study.



Dofasco Inc.
www.dofasco.ca

The field of organizational behaviour offers many potential solutions to these kinds of problems. To take just a few examples, consider how Dofasco Inc. has fostered employee commitment and loyalty. Dofasco has a profit-sharing plan, a vari-

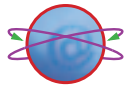
Exhibit 1.3
Work-Life conflict in Canadian organizations.

Source: Duxbury, L., & Higgins, C. (2003). *Work–life conflict in Canada in the new millennium: A status report.* Ottawa: Health Canada.

These findings are based on a sample of 31,571 Canadian employees who work for 100 medium to large organizations in the public, private, and nonprofit sections of the economy. The authors of the report concluded that the majority of Canada's largest employers cannot be considered to be best-practice employers.

What Workers Experience	Percentage of Employees
Employees reporting high levels of role overload	58%
Work responsibilities interfere with the ability to fulfill responsibilities at home	28%
Negative spillover from work to family	44%
Employees reporting high levels of stress	33%
Employees reporting high levels of burnout	32%
Employees reporting highly depressed mood	36%
Employees reporting high levels of job satisfaction	46%
Employees reporting high levels of organizational commitment	53%
Employees who think of leaving their current organization once a week or more	28%
Employees indicating high levels of absenteeism	46%
Employees reporting high levels of life satisfaction	41%

able compensation plan tied to corporate performance, recreational facilities such as baseball diamonds and a golf course, as well as other employee benefits and programs.[33]



Radical Entertainment
www.radical.ca

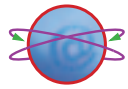
At Radical Entertainment, a software company in Vancouver that has been ranked as one of Canada's 50 best-managed private companies, taking care of employees and creating a great place to work is a high priority. Employees have access to a fully equipped gym, flexible hours, enriched maternity leaves, and breakfast every morning. According to company CEO Ian Wilkinson, "If creating a good place to work means that the people who work here will be inspired and that they will stay with us, then it's worth the cost."[34]

This book provides many other examples of organizations that have been able to build and maintain strong and positive employee-organization relationships. To learn more about the management practices of the best companies to work for in Canada, see Exhibit 1.4.

A Focus on Quality, Speed, and Flexibility

Intense competition for customers, both locally and globally, has given rise to a strong emphasis on the quality of both products and services. Correctly identifying customer needs and satisfying them before, during, and after the sale (whether the consumer purchased a car or health care) are now seen as key competitive advantages. To obtain these advantages, many organizations have begun to pursue programs to achieve continuous improvement in the quality of their products and/or services.

Quality can be very generally defined as everything from speedy delivery to producing goods or services in an environmentally friendly manner. For example, AT&T used its quality program to radically reduce paper pollution in its operations. Other firms that make notable quality efforts include Cadillac, Xerox, FedEx, and Motorola.[35] In the auto industry, quality is considered to be a critical indicator of success. Thus, it is not surprising that in North America, the Big Three automakers have been making changes to improve the quality of their vehicles. For example, Ford Motor Co. has implemented new quality-control initiatives that include more rigorous inspection processes, and executives have begun conducting quality blitzes at the plant level and within engineering and purchasing operations.[36]



Ford Canada
www.ford.ca

Quality tactics include extensive training, frequent measurement of quality indicators, meticulous attention to work processes, and an emphasis on preventing (rather than correcting) service or production errors. Maine's L.L. Bean mail order

- Flexible work schedules (flextime, telecommuting, job sharing, and compressed workweek)
- Stock-options, profit-sharing plans, and performance bonuses
- Extensive training and development programs
- Family assistance programs
- On-site fitness facilities, daycare, and wellness programs
- Career days and formal career plans
- Flexible or cafeteria-style benefit plans
- Monthly staff socials, family Christmas parties, and picnics
- Stress reduction programs
- Monthly all-employee meetings
- Formal workplace diversity programs to encourage women and minorities
- Employee recognition and reward programs

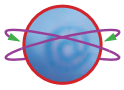
Exhibit 1.4
Management Practices of the best companies to work for in Canada.

Sources: Brearton, S., & Daly, J. (2003, January). The 50 Best Companies to Work For in Canada. *Report on Business Magazine, 19*(2), 53–66; Hannon, G. (2002, January). The 50 Best Companies to Work For. *Report on Business Magazine*, 18(7), 41–52.

clothing and camping operation claims to have shipped 500,000 orders without an error over a period of several months. The Big Three auto makers focus on solving problems that customers are most concerned about, such as wind noise, brake noise, fuel consumption, and ease of operating doors and hatches.[37]

Closely allied with quality is speed. Lenscrafters makes glasses "in about an hour," and Dominos became famous for speedy pizza delivery. Local car dealers now do on-the-spot oil changes, whereas customers previously, had to make an appointment days in advance. Perhaps even more important than this external manifestation of speed is the behind-the-scene speed that has reduced the cycle time for getting new products to the market. Firms such as Benetton and The Limited can move new fashions into stores in a couple of months instead of a couple of years, the former norm. American automakers are beginning to approach the Japanese standards for getting a new car design in the showroom in three years instead of five. Such speed can prove to be a real competitive advantage. Sega successfully challenged Nintendo in the video game market by being the first to launch a 16-bit system.

Finally, in addition to improving quality and speed, flexibility on the part of employees and organizations is also an important competitive advantage. Organizations today must operate in increasingly uncertain, turbulent, and chaotic environments that are being driven by the technological revolution and increasing globalization. For some organizations, the competition has become so fierce that it has been referred to as hypercompetition. Hypercompetitive environments are characterized by constant change and high levels of uncertainty. In order to survive in such an environment, organizations need to be flexible so that they can rapidly respond to changing conditions.



Lincoln Electric Co.
www.lincolnelectric.com

A good example of this is happening in the manufacturing sector, where organizations have begun to create jobs that are more mobile and flexible. At Lincoln Electric Co., the world's largest producer of arc welding equipment, workers receive continual cross-training and they are moved wherever they are needed depending on the type and volume of orders the company receives. For example, salaried workers have been moved to hourly clerical jobs and are paid a different wage for each job assignment. Such job flexibility allows the company to operate with a lean workforce that has for decades contributed to productivity growth and profitability. Apex Precision Technologies Inc. trains workers on all of its equipment so that they can shift jobs depending on the orders the company receives each week. As these examples demonstrate, organizations require multiskilled workers as well as new organizational structures, cultures, and leaders, to build an organization with strategic flexibility to survive and compete in the 21st century.[38]

What does the passion for quality, speed, and flexibility have to do with organizational behaviour? For one thing, all of these require a high degree of employee *involvement* and *commitment*. Often, this means that management must give employees the power to make on-the-spot decisions that were previously reserved for managers. In addition, quality, speed, and flexibility all require a high degree of *teamwork* between individuals and groups who might have some natural tendency to be uncooperative (such as the engineers and accountants involved in car design). The field of organizational behaviour is deeply concerned with such issues.

Employee Recruitment and Retention

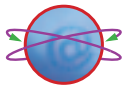
One of the greatest challenges facing organizations today is how to attract and retain skilled employees. The ability of organizations to attract and retain talent has always been important; however, today it has become critical for many organizations that are struggling to find the employees they need to compete and survive. An increasing number of organizations are having trouble finding qualified people, a problem stemming in part from changing demographics which will result in a

dramatic shortage of skilled workers over the next 10 years. The baby boomers will begin to retire in the next few years, which will create a large skills gap. It is predicted that there will be a 30 percent shortfall of workers between the ages of 25 and 44. This, combined with the increasing willingness of knowledge workers to relocate anywhere in the world and fewer Canadians entering the skilled trades, means that Canadian organizations face severe shortages of labour in the coming years. In fact, there are already shortages in scientific, technical, and high-tech industries, and in senior management, communications, and marketing positions. The problem is so serious that most of Canada's top CEOs believe that retaining employees has become their number one priority, and attracting new employees is their fourth priority just behind financial performance and profitability. Three-quarters of CEOs say they can't find enough competent employees.[39]

The problem is just as severe in the United States, where 80 percent of employers say they are having trouble attracting and retaining employees with critical skills, and some report having difficulty hiring employees with non-critical skills. Given that the key to an organization's success and very survival is its people, the ability to successfully recruit and retain employees has become a critical concern for managers and organizations.[40]

It is now well known that it takes more than money and competitive wages to recruit and retain skilled and talented employees. Pay is only one factor, and for many employees it is not the most important factor for joining or remaining in an organization. So what can managers and organizations do to recruit and retain skilled employees?

Consider how DuPont Canada has been successful in retaining its employees. Every new employee receives extensive training in systemic thinking skills with an orientation to problem solving to maintain operational effectiveness. Employees are told everything that is important about what they are doing. Their input on important issues is sought out by management, and they share in the responsibility for the health of the company. The rate of employee turnover at DuPont is low compared to its competitors and to the industry average. In fact, the average length of employment for an employee at DuPont is over 15 years.[41] Eli Lilly Canada Inc. invested in coaching workshops for managers after a survey indicated deficiencies in supervisors' management skills. This helped reduce the turnover rate from 11 percent in 1999 to 6.8 percent in 2001.[42]



DuPont Canada
www.dupont.ca

Many of the solutions to improving recruitment and retention can be found in organizational behaviour. For example, providing opportunities for learning, improving employees' job satisfaction and organizational commitment, designing jobs that are challenging and meaningful, providing recognition and monetary rewards for performance, managing a diverse workforce, flexible work arrangements, and effective leadership are just some of the factors that can improve employee recruitment and retention. These are of course some of the practices of the best companies to work for in Canada, and their annual rate of turnover is lower than the national average and is half that of other companies.[43] Organizational behaviour has a great deal to offer companies that seek to improve recruitment and retention and to become an employer of choice.

We hope this brief discussion of some of the issues that are of concern to managers has reinforced your awareness of using organizational behaviour to better understand and manage life at work. These concerns permeate today's workplace, and we will cover them in more detail throughout the book.

the manager's Notebook

Turnaround at Continental Airlines

1. The application of the goals of organizational behaviour of predicting, explaining, and managing behaviour can be used to understand the problems and changes at Continental. At Continental, we can predict employees' negative attitudes and poor customer service. In fact, customers learned to expect bad service when they flew with Continental. Explanation can help us better understand employees' attitudes and behaviour. A lack of trust and respect between employees and management appears to have created negative attitudes toward the company and an unmotivated workforce. The public also appears to have developed a lack of respect for the airline. As well, employees are not motivated to improve their behaviour and have little input and involvement in how things are done in the organization. Having predicted and explained employee attitudes and behaviour, can it be managed? Continental has implemented programs to improve trust and respect between employees and management and to increase employee attitudes and motivation. New channels of communication have been developed to allow employees greater input and involvement in the company, and incentive programs have been implemented to improve employee motivation.
2. By all accounts, Continental has experienced a major turnaround. After being ranked last among the Big Ten airlines in 1993 and 1994, it now earns consistently high ratings. In 1997, for the second consecutive year, Continental was ranked as the number one major airline in customer satisfaction for flights of 500 miles or more. The achievement in quality translates into equally impressive monetary figures. In 1995, the company made a profit of $224 million, and in 1996, it more than doubled that. The two years represent the most profitable years in the airline's 63-year history. Just as important is the new attitude of Continental's employees. After a decade-long dip, morale is back up. Employees no longer cringe when their airline is mentioned. In fact, in 1999, Continental was named by *Fortune* magazine as one of the "100 Best Companies" to work for. Not surprisingly, employees no longer rip the logos off their shirts, and sales of Continental logo items at the company store are up 400 percent!

Learning Objectives Checklist

1. *Organizations* are social inventions for accomplishing common goals through group effort. The basic characteristics of organizations is that they involve the coordinated efforts of people working together to accomplish common goals.
2. *Organizational behaviour* refers to the attitudes and behaviours of individuals and groups in an organizational context. The field of organizational behaviour systematically studies these attitudes and behaviours and provides advice about how organizations can manage them effectively. The goals of the field include the prediction, explanation, and management of organizational behaviour.
3. *Management* is the art of getting things accomplished in organizations through others. It consists of acquiring, allocating, and utilizing physical and human resources to accomplish goals.
4. The *classical view* of management advocated a high degree of employee specialization and a high degree of coordination of this labour from the top of the organization. Taylor's Scientific Management and Weber's views on bureaucracy are in line with the classical position. The *human relations movement* pointed out the "people problems" that the classical management style sometimes provoked and advocated more interesting job design, more employee participation in decisions, and less centralized control.

5. The *contemporary contingency approach* to management suggests that the most effective management styles and organizational designs are dependent on the demands of the situation.

6. Research on what managers do shows that they fulfill interpersonal, informational, and decisional roles. Important activities include routine communication, traditional management, networking, and human resource management. Managers pursue agendas through networking and use intuition to guide decision making. The demands on managers vary across cultures. A good grasp of organizational behaviour is essential for effective management.

7. A number of societal and global trends are shaping contemporary management concerns including local and global diversity; changes in employee–organization relationships; the need to improve quality, speed, and flexibility; and the need to recruit and retain employees.

Discussion Questions

1. What are your goals in studying organizational behaviour? What practical advantages might this study have for you?

2. Consider absence from work as an example of organizational behaviour. What are some of the factors that might *predict* who will tend to be absent from work? How might you *explain* absence from work? What are some techniques that organizations use to *manage* absence?

3. Describe the assumptions about organizational behaviour that are reflected in television shows, such as situation comedies and police dramas. How accurate are these portrayals? Do they influence our thinking about what occurs in organizations?

4. To demonstrate that you grasp the idea of contingencies in organizational behaviour, consider how closely managers should supervise the work of their employees. What are some factors on which closeness of supervision might be contingent?

5. Management is the art of getting things accomplished in organizations through others. Given this definition, what are some factors that make management a difficult, or at least a challenging, occupation?

6. Use the contingency approach to describe a task or an organizational department where a more classical management style might be effective. Then do the same for a task or department where the human relations style would be effective.

7. Give an example of a managerial *figurehead* role, *negotiator* role, and *disseminator* role.

8. Why do studies of managerial behaviour reveal the importance of networking?

9. What are some of the demands that increased workforce diversity and increased global operations make on managers? What are some of the opportunities that these trends offer to managers?

10. Describe how management practices and organizational behaviour can help organizations deal with the contemporary management concerns discussed in the chapter. In other words, what are some of the things that can be done to 1. manage local and global diversity, 2. improve the nature of employee–organization relationships, 3. improve quality, speed, and flexibility, and 4. improve the recruitment and retention of employees.

Experiential Exercise

Good Job, Bad Job

The purpose of this exercise is to help you get acquainted with some of your classmates by learning something about their experiences with work and organizations. To do this, we will focus on an important and traditional topic in organizational behaviour—what makes people satisfied or dissatisfied with their jobs (a topic that we will cover in detail in Chapter 4).

1. Students should break into learning groups of four to six people. Each group should choose a recording secretary.
2. In each group, members should take turns introducing themselves and then describing to the others either the best job or the worst job that they have ever had. Take particular care to explain why this particular job was either satisfying or dissatisfying. For example, did factors such as pay, co-workers, boss, or the work itself affect your level of satisfaction? The recording secretary should make a list of the jobs group members held, noting which were "good" and which were "bad." (15 minutes)
3. Using the information from Step 2, each group should develop a profile of four or five characteristics that seem to contribute to dissatisfaction in a job and four or five that contribute to satisfaction in a job. In other words, are there some common experiences among the group members? (10 minutes)
4. Each group should write its "good job" and "bad job" characteristics on the board. (3 minutes)
5. The class should reconvene, and each group's recording secretary should report on the specific jobs the group considered good or bad. The instructor will discuss the profiles on the board, noting similarities and differences. Other issues worth probing are behavioural consequences of job attitudes (e.g., quitting) and differences of opinion within the groups (e.g., one person's bad job might have seemed attractive to someone else). (15 minutes)

Experiential Exercise

OB on TV

The purpose of this exercise is to explore the portrayal of organizational behaviour on television. Most experts on the function of TV as a communication medium agree on two points. First, although TV may present an inaccurate or distorted view of many specific events, the overall content of TV programming does accurately reflect the general values and concerns of society. Second, experts generally agree that TV has the power to shape the attitudes and expectations of viewers. If this is so, we should pay some attention to the portrayal of work and organizational behaviour on TV.

Prepare this exercise before its assigned class:

1. Choose a prime-time TV show that interests you. (This means a show that begins between 8 p.m. and 10 p.m. in your viewing area. If your schedule prohibits this, choose another time.) The show in question could be a comedy, a drama, or a documentary, for example, *Law and Order*, *The Practice,* or *Nip/Tuck*. Your instructor may give you some more specific instructions about what to watch.

2. On a piece of paper, list the name of the program and its date and time of broadcast. Write the answers to the following questions during or immediately following the broadcast:
 - **a.** What industry is the primary focus of the program? Use the following list to categorize your answer: agriculture; mining; construction; manufacturing; transportation; communication; wholesale trade; retail trade; finance; service; public administration. (Examples of service industries include hotel, health, law, education, newspaper, entertainment, and private investigation. Examples of public administration include justice, police work, and national security.)
 - **b.** What industries or occupations are of secondary focus in the program?
 - **c.** What exact job categories or occupational roles do the main characters in the program play? Use this list to categorize your answers: managerial; clerical; professional; sales; service; craftsperson; machine operator; labourer; lawbreaker; military personnel; customer/ patient/ client; housework.
 - **d.** Write several paragraphs describing how organizational life is portrayed in the program. For example, is it fun or boring? Does it involve conflict or cooperation? Are people treated fairly? Do they seem motivated? Is work life stressful?
 - **e.** What aspects of the TV portrayal of organizational behaviour do you think were realistic? Which were unrealistic?

3. Be prepared to discuss your findings in class. Your instructor will have some research information about how organizational life has actually been portrayed on TV over the years.

Source: Inspired by the research of Leah Vande Berg and Nick Trujillo, as reported in: Vande Berg, L., & Trujillo, N. (1989). *Organizational life on television.* Norwood, NJ: Ablex.

Case Incident

The Birthday Party

A couple of months ago, on a Saturday, Jennifer organized a 50th-birthday party for her mother. She worked for several months arranging the party and getting her family to agree to the arrangements. She lined up the restaurant at which the party would be held. She arranged the group gifts, prepared for the follow-up party to be held at her house, the whole works. It was going to be a special day for Jennifer, her mother, and everyone else involved. Early on that Saturday morning, Jennifer received a call from her boss and was told that she had to come to work that day. When she began to describe her plans for the day, she was cut off and told, "The board doesn't want excuses. The board wants work." The 50th birthday party was held, but without Jennifer present. She spent the whole Saturday at work. According to Jennifer, it was not even an emergency that led her to be called in.

1. What does this incident tell you about organizational behaviour at Jennifer's organization (e.g., personality, perceptions, leadership, culture, power)?

2. How can organizational behaviour help to predict and explain Jennifer's and her boss's behaviour? What advice would you give to Jennifer and her boss in terms of managing organizational behaviour in the future?

Source: Powell, G. N. (1998). The abusive organization. *Academy of Management Executive, 12*, 95–96.

Case Study

Grappling with Graft

The air-conditioning was on in the hotel room, but Chris Algimontas could not stop sweating. Here he was on his first sales trip to the Middle East, about to lose a $2.7-million deal. And the public works minister's assistant had just asked for a payoff.

Algimontas, 38, was vice-president of sales for Certec Ltd., a high-tech firm that designed computerized traffic-flow management systems for large cities. The modernizing Middle East was a potentially rich market for the company, and Algimontas knew it would be a feather in his cap if he could land this contract.

Certec had hired a local law firm to act as its agent, but Algimontas decided to negotiate the final contract details directly with the ministry of public works. All the company's systems were custom designed, and Algimontas knew the government would be making its decision as much on the basis of Certec's ability to provide personal attention as on price.

Algimontas arrived in the capital late on a Wednesday afternoon and met with the ministry's technical advisers on Thursday. They were clearly impressed with the plans the company had presented months earlier. Algimontas was able to resolve the few questions they had with a few faxes from Certec's head office.

Then came his final negotiating session with the minister's adviser, an immaculately dressed man in his mid-30s. Surprisingly, he showed little interest in discussing the contract. He and Algimontas talked about everything—flight times to London, Canadian winters—except price. Algimontas was relieved when the adviser finally said, "Save your numbers for this evening. We'll talk business over dinner."

The dinner went flawlessly. The adviser negotiated only $75,000 off the contract price. In fact, he showed more enthusiasm comparing notes on their undergraduate days when he discovered that he and Algimontas had both graduated from Ivy League universities in the United States.

The two spent the rest of the evening touring the city in a limousine and visiting illegal nightclubs. By 2 a.m. they were firmly cemented by the bonds of alcohol and their distant collegiate past. Algimontas was sure he had clinched the deal. But just as the limo pulled up to Algimontas's hotel, the adviser turned to him, flashed his most charming smile and said, "Oh yes, I forgot to check, but you did include the normal commission for government personnel in your price, didn't you? The Germans and Italians did."

Alarm bells went off in Algimontas's head. "Commission?" he thought, "what commission?" He told the adviser he would check and get back to him the next day.

After a sleepless night, Algimontas phoned Certec's local agent. The lawyer just said, "It is pretty standard procedure. I think about $12,000 is right for a contract this size. You can funnel it through our legal fee, if you want. That is what most of our clients do."

Algimontas was horrified. He had always made it a point to act ethically in all his business dealings, but he did not want to lose such a lucrative contract either. Besides, $12,000 was such a small price to pay.

Should Algimontas take the moral high road and refuse to pay the bribe? Or should he just pay it and chalk it up to local customs? Better yet, is there a way he can avoid paying the bribe and still manage to salvage the deal?

Source: Excerpted from Grappling with graft. (1990, September). *Canadian Business,* 103ff.

1. Comment on Chris Algimontas's performance in each of Mintzberg's managerial roles. How effective is his performance in each of these roles?
2. What are some of the cross-cultural differences that Algimontas encounters? How do these differences influence the behaviour of Algimontas and his contacts in the Middle East?
3. Is there anything that Algimontas could have done prior to his trip in order to predict, explain, and manage the situation?
4. Is it ethical for the minister's adviser to request the commission? Is it ethical for Algimontas to pay it? Is the lawyer's advice ethical? What should Algimontas do, and why? What would you do?
5. What does this case demonstrate about management and organizational behaviour?

Integrative Case:

Ace Technology

The meeting ran an hour overtime, and Bill was glad it did. The senior managers finally reached a consensus on the strategy for Ace Technology. The consensus was a critical milestone for the company and set the stage for a number of important change strategies. The task ahead was to make these plans a reality.

A critical topic in the planning session was the antiquated compensation programs. The senior managers agreed that the compensation programs were too complicated and they conflicted with the key themes of the company's new strategy. The base pay program emphasized the hierarchy of the organization and was not customer focused. The incentive plans were tied to individual accountability rather than group effort. The recognition programs were too limited in both who was selected and who used them.

Change needed to happen quickly if Ace Technology was going to regain its market leadership. Bill knew that changing the compensation plans was going to be very challenging, but it was too important to be delayed.

As he entered his office, Bill thought, "What do I do now?"

Bill called his management team together to discuss linking human resources programs to the organization's new business strategy. He reviewed the changing conditions in the business environment and the rise of new competitive forces. Although there were many opinions, few team members disagreed about the need to change.

Bill reviewed the mission, vision, and values of the company. Although his staff members had heard this before, Bill outlined the company's strategy against the critical success factors. Bill's team began to see the pay program in context of the new strategy. The team members were able to examine what programs support or defend the new goals. Their discussion consumed most of the three-hour meeting.

Other Ace Technology executives met and conducted intense discussions with their own staff as well. Afterward, Bill and the other executives met to discuss what they had found. Bill summarized the comments he heard from each executive and offered a set of "action themes" that would be important for focusing their initiatives. The executives were making real progress on developing concrete action plans and employees were becoming genuinely excited about the new direction. But, the executives knew the excitement would not be sustained unless the plans could be reinforced.

At the next meeting of Ace Technology's senior management team, the firm's new strategic plan was finalized. The executives identified several common themes in the firm's

strategy and established eight critical success factors. These factors are:

- Be more responsive and valuable to our customers than to our competitors.
- Manage costs so that pricing can be lower than our primary competitors' but the firm remains financially strong.
- Continue to seek ways to improve processes of the organization and transfer knowledge across all areas.
- Create a work environment where people feel valued for their contributions.
- Continue to advance the technology and capabilities of our products through research and development.
- Give the customer the products and services they need, when they need them.
- Provide such high-quality products and services that our customers have confidence in our organization.
- Continue to seek ways to be more attractive in the marketplace.

These critical success factors summarized many management initiatives that were in place for years. In light of the eight factors, the executives saw that Ace's success rested on shareholders, customers and employees. Although these were not new concepts, the list strengthened the understanding of what the company needed to do.

Bill then led the executive team in a discussion about action needed. Once the group found key behaviours, Bill used the desired behaviours as the foundation for developing a reward strategy and determining what programs needed to be developed or changed. He also saw how these desired behaviours could serve to refocus other human resources and management initiatives.

The key behaviours the executive team finally developed are:

- Focus on the customers and treat them as we want to be treated.
- Take the initiative to do what needs to be done, for our customers and for ourselves.
- Utilize resources in a responsible manner, and find ways to improve efficiency.
- Continue to increase knowledge and job capabilities.
- Be innovative and resourceful in how to approach work. Experiment with new methods, learn from these experiences, and share the knowledge with others.
- Work as a team with a high degree of mutual respect and collaboration.
- Fulfill the commitment to achieve desired results for the customer and the company.

The executive team realized these actions would need to be modified to fit its specific units. Andrea would need to integrate them differently in Operations than Frank would in Finance. Regardless of the interpretation, the actions provided the missing link between strategy and action.

As Bill and the executives worked on the reward strategy, it became clear that the program did not need to be complicated—the value would be in its simplicity. The group also tried to use many of the programs already in place, making minor modifications. It wanted a flexible reward strategy that could change over time.

The Ace Technology Overall Reward Strategy

Because people are critical to Ace Technology's competitiveness, it is essential that we create a link between the strategy of the company and employee action, between company competitiveness and employee contributions, between the well being of the company and personal well being. As the company prospers, so will our employees. As we face challenging times in the marketplace, we will meet competitive demands effectively. Our reward systems will provide an integrated set of programs in which all members will participate. With such a program, we are demonstrating that Ace Technology is its people, and the people are the company.

Base Compensation

The base pay program will support Ace's ability to acquire and develop superior talent by emphasizing critical competencies. There will be core competencies that reflect the shared values of the company and competencies that focus on the unique requirements of each major functional area. These competencies will be the measuring stick for managing performance, directing careers, investing in training and development, and providing competitive compensation. The base pay levels will be parallel to the median of the market where we compete for talent and business. We will make special provisions for specific functions that are in high demand. Compensation growth will be based on demonstrated competencies that improve the firm's performance and competitiveness.

Variable Compensation

Variable pay programs will focus specific performance requirements for the organization. The purpose of the variable pay program will be to create a clear and significant stake for each individual in the performance of his or her business unit and the company. Cash compensation will emphasize short-term performance requirements and the measures will link directly to the strategic goals of the company. The variable plans primarily will emphasize team performance. Individual incentives will be used if they are clearly aligned with Ace's strategy. In addition, the company will make use of stock options and restricted stock to provide selected people with a meaningful stake in the future of the company. In combination, these variable pay programs will encourage and reinforce desired performance.

Recognition Management

Recognizing and rewarding employee contributions are essential to this organization. The firm will provide and promote a series of formal recognition programs that will reward the contributions of employees. Managers can supplement these specific programs with practices that are of particular relevance to their business units. Business units will focus their recognition process on the contributions of individuals and teams. Recognition will not emphasize high-expense items, except in extraordinary cases. Instead, through a combination

of special events, poster boards, newsletters, public meetings, and private discussions, individuals will be appreciated for their contributions. Senior management's role will be to recognize and reward those who do a particularly good job at recognizing others. Ace Technology will continue to make recognition something special.

Several weeks after the reward strategy was developed, human resources managers presented an evaluation of the reward systems to Ace's executives. Managers' opinions differed on whether reward systems would impact behaviour. Many believed that change would cause disruption and were concerned about the impact. As the discussion unfolded, it became apparent to the group that to do nothing, or make only incremental efforts would have a more negative impact than making a mistake. The firm's new strategy depended on a difference in how employees were rewarded. The executives decided implementation needed to move in stages and be supported by improvements in information availability. The new reward systems will need to support the firm's new strategy directly—by following the changes in some areas or by serving as a catalyst for change in other areas.

In short, Ace Technology determined the following action plan:

- The company-wide performance-sharing program (i.e., profit sharing) will be eliminated and the dollars will be channelled to support unit-based incentive plans. The reallocation will create a strong line of sight between actions and results with a focus on growth, productivity, cost reductions, delivery performance, and other key success factors.
- Unit-based incentive plans will be developed for all critical functional areas. The incentives will emphasize teams. The measures will use a balanced scorecard approach, emphasizing issues relevant to the unit. The new plan will enhance teamwork, drive a customer focus deep into the organization, and clearly define the commitment to performance.
- The current recognition program will be revamped, providing more opportunities for recognition. A set of tiers will be developed, providing a variety of involvement and reward opportunities. Further, the executive team will review these programs regularly and become active at cross-function events. The emphasis of the recognition program will be innovation, initiative, and outstanding customer service. The program will be transformed from a "nice thing to do" to one that is clearly aligned with desired behaviours.
- The base pay program will shift from being based solely on the market to a combination of competencies and market. The program will emphasize developing a series of career levels tied to the requirements of each major operating unit. Pay opportunities will be tied to career pay bands and increases will be a function of competencies. This will clearly emphasize increasing knowledge, taking responsibility and initiative for personal development, and fulfilling commitments. The base pay program will directly reflect what is important to the company and the employees.

The presentation and discussion demonstrated the group's commitment to link the company's rewards to the critical success factors. Further, the proposed reward programs would form a system of rewards where each element was integrated with the others. The attention was not only on the results but on the process as well.

Source: From Thomas B. Wilson, T. B. (1998, Summer). Reward strategy—Time to rethink the methods and the messages. *ACA Journal,* pp. 63–69. Reprinted with permission.

Questions

1. What are some organizational behaviour topics and issues that relate to the circumstances at Ace Technology?
2. Discuss the relevance of each of the goals of organizational behaviour for Ace Technology. What does the company want to predict, explain, and manage?
3. Consider Bill's role as a manager in terms of Mintzberg's managerial roles. What roles does he exhibit and how effective is he in performing these roles?
4. What are some of the implications of the events in the case for individuals, groups, and the organization?
5. Discuss the effect that the action plans might have on the relationship between Ace Technology and its employees and the ability of the company to recruit and retain employees.